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Discussion-Opinion-Editorial



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The Coming of Age of Venture Capital Investing in the New Fields of the Emerging MOGI Sectors: A Snapshot for the Future: Part 2

MOGI: Minerals, Oil and Gas Integrated

Abstract

Venture Capital (VC) has become a chosen tool of investment in the areas of business where there seems to be potent promise but yet immature in terms of market, customer acceptance and political dynamics. Such uncertainties make bankers both nervous and hesitant,and where the risk takers like venture capitals thrive. In the first part of the article we discussed about how mineral,oil& gas and energy companies are becoming both investors of VC and attractive destinations for investment by other VCs. The VCs are mostly either Private Equities (PE) or the venture funds of established companies. They mostly invest in emerging technologies and risky, yet promising, opportunities. In this part we discuss how the risks are assessed and mitigated, what takes one to be the VC fund manager and the current dynamics in the VC investments. Risky as they are, VC investors always look for reasonable profit to exit investments, for the next set of investors to pursue the opportunities with the omnipresent risks.

Keywords: *Job, Minerals Investment, Risk and Failure, Team, Venture Capital*

1.0 A snapshot of the future

Start-ups can play a valuable role in helping to accelerate the energy transition. In the below you can see The Shell Singapore's current plan to support startups.

- Alicia Bots - Autonomous robotic solutions for safer and more efficient maintenance in marine and energy industry.
- Altent Renewables - Leverages a unique Altent Hydrothermal Process to efficiently convert wet waste into fuels and minerals.
- Flint - Pioneering sustainable paper batteries, a safer and more cost-effective alternative to traditional Lithium batteries.
- Greenitio - Develops bio-based ingredients to replace microplastics and polymeric ingredients.

- Groundup.ai - Eliminates unplanned downtime through industrial IoT and AI.
- Nika.eco - Leverages on power of AI to discover nature-based carbon project eligibility, opportunities and risk at scale.
- SG Recycle - Providing one-stop smart recycling that makes it fun and efficient.
- SOLV8 Technology - Offers a novel nanofiltration membrane for energy-efficient solvent recovery.

2.0 How to Prepare for Landing a Venture Capital Job

To prepare for a career in venture capital, one can take courses in business, economics, accounting, and other relevant subjects. You can also consider the following:

- Financial modeling: This is an essential skill for making sound investment decisions.
- Valuation techniques: One will need to understand valuation techniques to assess the potential of an investment.
- Industry trends: There is a serious need to understand industry trends to assess the potential of an investment.
- Networking: Build a professional network with other venture capitalists, entrepreneurs, and stakeholders to expand your opportunities.
- Courses one can consider are: Business management, information technology, project construction and engineering, investment economics, art of persuasion and negotiation, risk assessment and liberal arts.
- Enthusiasm and knowledge related to inter-personal communications, deal sourcing, due diligence, and portfolio management will help.



Figure 1. How to get into venture capital.

3.0 The Value of a Strong Team

While a compelling business idea is undoubtedly essential, VCs understand that a strong team is often the differentiating factor that determines whether a startup can execute its vision effectively. A cohesive, diverse, and talented team brings a diverse range of skills, expertise, and perspectives to the table. This fosters innovation, adaptability, and the ability to overcome obstacles that invariably arise during the R&D and scaleup journey.

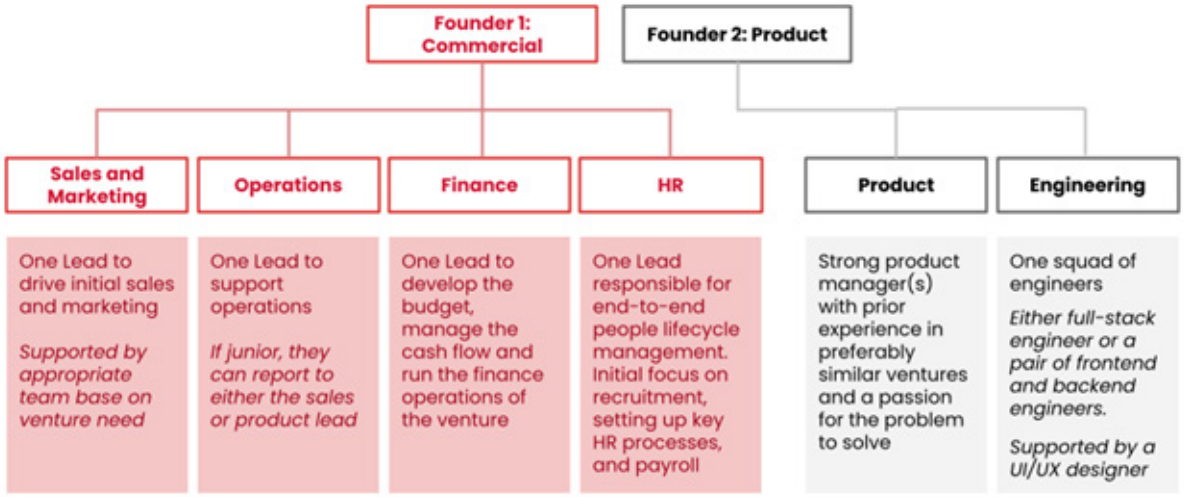


Figure 2. The right team to start and accelerate.

3.1 Team factors Influencing VC Decision-Making

- Complementary Skill Sets: VCs seek teams that possess a complementary blend of technical, managerial, and industry-specific expertise. This takes hashtag#personality, which is the biggest asset for the team dynamic and the company's success. Track Records can instill confidence in VCs regarding the team's capabilities.
- Team Dynamics: VCs pay close attention to how team members collaborate, communicate, and handle conflicts. A cohesive team with strong interpersonal relationships demonstrates a shared vision, trust, and an ability to work well together, all of which are vital for the long-term success of a startup. HOW can you ensure that so early in the journey?
- Leadership: Exceptional leadership skills are highly valued by VCs. A team with a capable and visionary leader who can inspire, make sound decisions, and adapt to changing circumstances is seen as a major asset.
- Passion and Drive: VCs look for teams that are passionate about their product or service and possess the drive and determination to overcome challenges. This enthusiasm is contagious and can be a strong motivating force during the early stages of a startup.
- Implications for Startups: Understanding the importance of team dynamics in the VC landscape can greatly benefit founders seeking funding and team extension.
- Here are some key considerations:
- Building a Strong Team: Founders should invest time and effort in recruiting and retaining talented individuals with complementary skill sets, domain knowledge, and a shared passion for the startup's mission.
- Emphasizing Team Development: Encourage team members to continually upgrade their skills, attend relevant professional events, and engage in networking. This showcases the team's commitment to personal and professional growth.
- Showcasing Success Stories: Highlight previous accomplishments, successful projects, and milestones achieved by the team to demonstrate a track record of success. What is the best way to do it?

4.0 Risks of Venture Capital Investments

4.1 Market Risk

The market risk associated with Venture Capital investments stems from the unpredictable nature of the startup ecosystem. Startups operate in rapidly evolving markets, where factors such as technological advancements, shifts in consumer

preferences, and regulatory changes can disrupt business models. As a result, there is a considerable risk that the market demand for a startup's product or service may not materialize as expected, leading to potential losses for venture capital investors.

4.2 Operational Risk

Operational risk refers to the possibility of startups facing challenges in executing their business plans effectively. This may include issues related to scalability, production capacity, supply chain management, or the ability to attract and retain talent.

Startups often encounter unforeseen operational challenges, and failure to address them promptly can hinder their growth prospects and ultimately impact the value of the venture capital investment.

4.3 Financial Risk

Financial risk refers to the potential for startups to experience financial difficulties, including cash flow constraints, excessive debt burdens, or insufficient revenue generation to sustain operations.

Early-stage businesses often operate with limited access to capital and revenue streams, making them vulnerable to financial shocks. Venture capital investors must assess the financial viability of startups and their ability to manage financial risks prudently to mitigate potential losses.

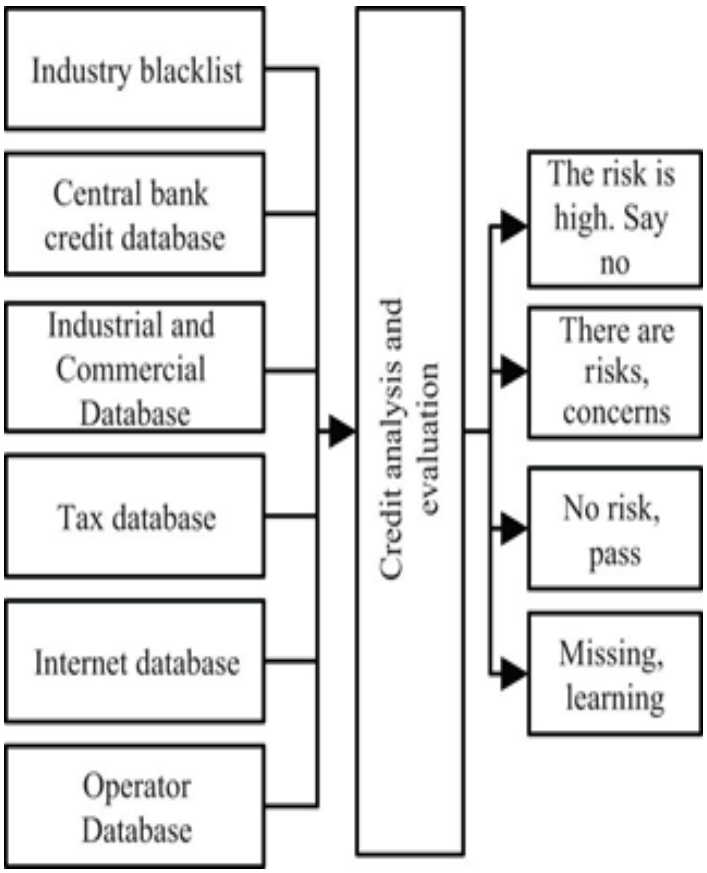


Figure 3. Risk assessment model of venture capital financing.

4.4 Liquidity Risk

Venture capital investments typically have long investment horizons, and liquidity is limited compared to other types of investments. The lack of a public market for trading venture capital-backed securities restricts investors from easily selling their holdings. As a result, investors may face challenges in accessing their capital before an exit event occurs, potentially leading to illiquidity of the investment.

4.5 Rewards of Venture Capital Investments

High Return Potential. One of the most significant rewards of venture capital investments is their potential for high returns. Successful startups that have achieved substantial growth and market domination can provide investors with significant financial gains through exits, such as acquisitions or IPOs. The high-risk nature of venture capital investing is balanced by the potential for substantial returns that can outperform other traditional asset classes.

4.6 Strategic Benefits

In addition to financial returns, venture capital investments offer strategic benefits to investors. Venture capital firms often provide startups with mentorship, networks, and access to industry expertise, enabling them to thrive in competitive markets. This strategic involvement allows investors to actively contribute to the growth and success of the startups in their portfolio, increasing the chances of achieving favorable outcomes.

4.7 Diversification Opportunities

Venture capital investments provide diversification benefits as they offer exposure to private companies that operate in different sectors and markets. This diversification can be especially valuable in portfolios where investments are predominantly in traditional asset classes such as stocks or bonds. Venture capital investments allow investors to access emerging industries and innovative technologies that may not be represented adequately in public markets.

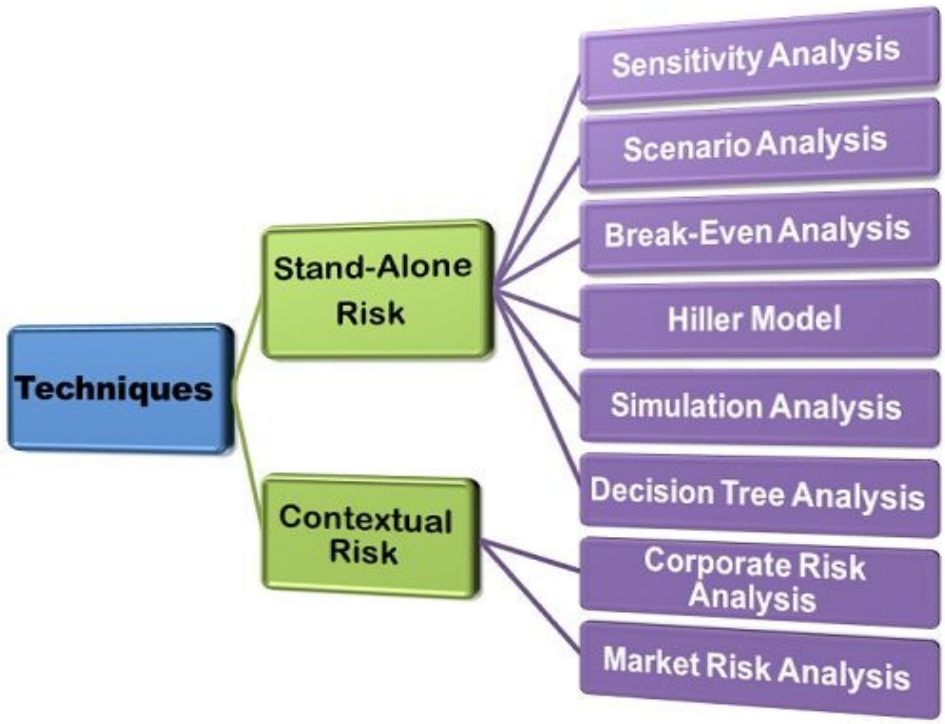


Figure 4. What are the Risk Analysis Techniques?

5.0 Why VCs also Fail

Venture Capital (VC) funding can fail for a number of reasons, including:

1. Uncertainty: VCs invest in new and unproven companies, which can be risky and lead to high failure rates.
2. Investor caution: Investors may be cautious and scrutinize startups more closely.
3. Startup issues: Startups may face issues such as layoffs, decreased valuations, and mishandling of funds.
4. Investor behavior: Investors may only meet with startups to learn about their product or category, without any interest in investing.
5. Investor strategy: Investors may prefer to give capital in chunks, which can make it difficult for startups to pivot if they need large amounts of capital.
6. Startup focus: Startups may focus too much on revenue growth and not learn from rejections.
7. Startup structure: Startups may not have a high-functioning board of directors.

6.0 Stake Out

Venture money is not for long-term. The idea is to invest in a company's balance sheet and infrastructure until it reaches a sufficient size and credibility so that it can be sold to a corporation or so that the institutional public-equity markets

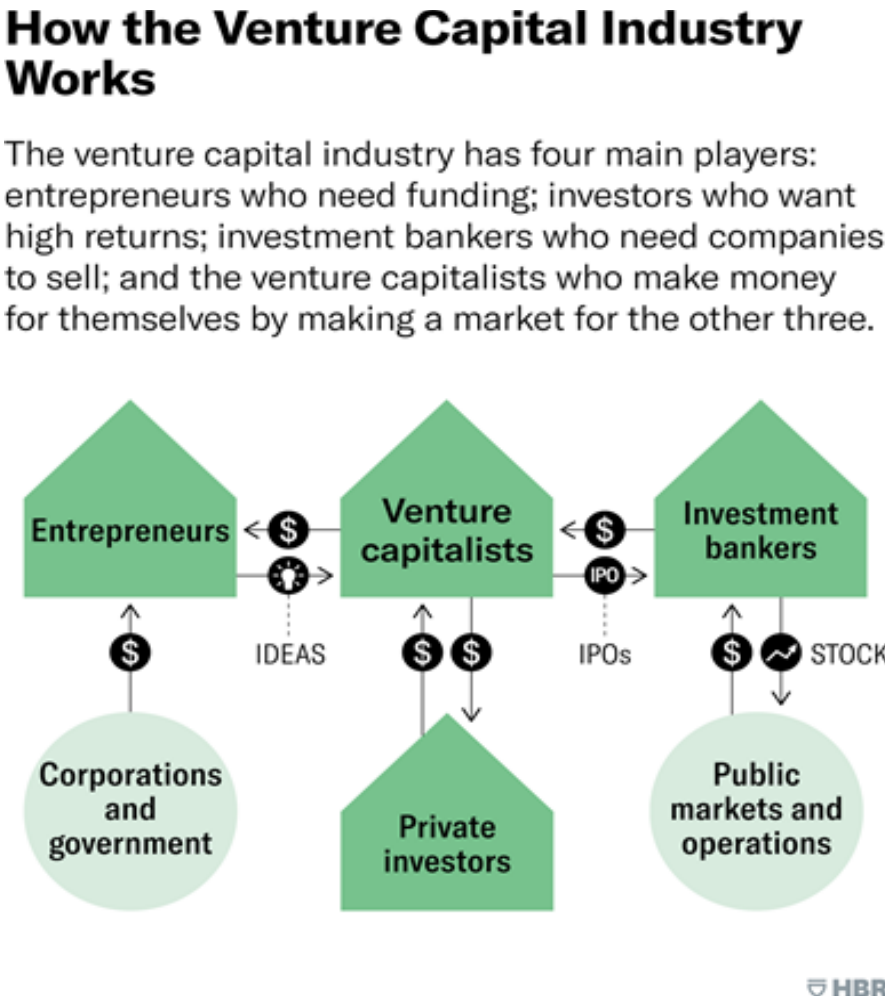


Figure 5. How venture capital works.

can step in and provide liquidity. In essence, the venture capitalist buys a stake in an entrepreneur's idea, nurtures it for a short period of time, and then exits with the help of an investment banker. Venture capital fills the void between sources of funds for innovation (chiefly corporations, government bodies, and the entrepreneur's friends and family) and traditional, lower-cost sources of capital available to ongoing concerns. Filling that void successfully requires the venture capital industry to provide a sufficient return on capital to attract private equity funds, attractive returns for its own participants, and sufficient upside potential to entrepreneurs to attract high-quality ideas that will generate high returns. Put simply, the challenge is to earn a consistently superior return on investments in inherently risky business ventures.

7.0 How VC Funds Behave During a Recession

Entrepreneurs know that downturns are inevitable in the economic cycle. Recessions should not sink a strong business, nor should they impede one from starting. This was demonstrated through the Great Recession as many unicorns began operations in the heart of the downturn. To name a few – Instagram, Uber, Venmo, Square, Slack and WhatsApp – thrived despite starting in an uncertain time.

In addition to the lucky few firms who invested early in the above household names, market conditions were favorable to the entire venture capital industry. According to data compiled by Pitchbook, the average venture capitalist was still able to produce strong returns during the Early 2000s Recession as well as the Great Recession (Table 1).

Venture capitalists were also able to post better returns in the worst part of recent recessions compared to their counterparts in the public markets (See table below). Typical venture firms are priced quarterly, while public equities are priced anytime there is a transaction. However, the resilience in recent recessions was not simply due to the illiquidity of

Table 1. Venture Capital vs. Public Markets Returns in the US market

Year	VC Average Return	S&P 500 Return	NASDAQ Return
2000	16.02%	-10.14%	-39.29%
2001	23.63%	-13.04%	-21.05%
2002	18.61%	-23.37%	-31.53%
2008	14.07%	-38.49%	-40.54%
2009	9.71%	23.45%	43.89%
Recession			
Average	16.41%	-12.32%	-17.70%

the venture capitalists' investment vehicles. Rather, the average firm counted the short-term pain within their portfolios and positioned themselves for long-term success.

The resilience in recent recessions along with the overall returns makes venture capital a very attractive home for investors. Despite historic bull runs of the early 2000s and 2010s, venture capital still outpaces the S&P 500 and NASDAQ's average annual return. Per data compiled by Pitchbook, the average venture capital firm returned 14.16% from 1996 to 2017, while the S&P 500 and NASDAQ indices returned 8.49% and 12.93% respectively. And the illiquid nature of venture investments result in less volatility than experienced in public markets (Table 1). The last trend we identified is

perhaps the most powerful. The average venture capitalist actually did better in the midst of the Great Recession than during the economic boom that proceeded it.

8.0 The Recent VC Outlook in the Minerals Sector

Mining is a quintessential legacy industry, controlled by a small cohort of entrenched, highly emitting companies. Fledgling companies have struggled to overcome the high costs required to disrupt traditional extractive technologies. But, enticed by new innovations, VCs are recognizing the widely acknowledged need for more critical minerals to power the energy transition, from the lithium in electric vehicle batteries to the copper needed to upgrade the electric grid. The International Energy Agency estimates that the global economy will require six times more mineral inputs in 2040 than today in order to reach the global goal of net zero by 2050. In 2023, TechMet, an investment vehicle for lithium, nickel and other rare metals, raised $200 million in fresh equity from investors including S2G Ventures and Lansdowne Partners, nearly bringing it to unicorn status. Bill Gates' Breakthrough Energy Ventures has backed KoBold Metals, which uses machine learning to more efficiently identify deposits of rare-earth metals. KoBold raised $195 million in June,2023 at a $1 billion valuation. Dealmaking in 2023 has exceeded 2022- a significant indicator given the cooled fundraising environment. So far in 2023, mining companies have brought in more than $550 million in VC funding, compared to the $508 million that the industry raised in the first three quarters of last year. The US government's development bank invested $30 million in TechMet and was expected to invest a further $80 million in 2023.Aether, a startup developing technology that requires less extractive techniques for mining lithium on US soil, in 2023 announced a $49 million Series A led by Natural Capital and Unless[1].

9.0 How the VCs are Likely to Change in the Future

9.1 Data-Driven Decisions

PitchBook research shows only 38% of VCs make their investment decisions after studying startups' data. Instead, these investors rely on their personal network and intuition. Today, funds have already started to use more data analytics tools to source startups and make decisions. Some of them are even AI-driven. Venture firms like Correlation Ventures, Deep Knowledge Ventures, and Lighter Capital have been using this approach for several years, and many more will follow suit in the near future. As soon as it happens, the industry will become fairer and more objective.

9.2 Startup communities around VCs

More VCs have started building communities around their funds - and this is another trend.

The VC industry isn't about investing and waiting for an exit anymore. Funds build real partnership with portfolio startups, helping them grow and introducing them to each other. This builds a community of strong entrepreneurs who develop together. Communication between investors and founders becomes more valuable, increasing engagement on both sides. There is an exchange of expertise and knowledge between members of the community. Non-competing founders, business experts, and investors can share working strategies and help each other avoid mistakes.

It's a strong competitive edge for any investment fund, that's why leading funds like True Ventures, Norwest, Atomico, and First Round Capital have adopted this approach.

10.0 Robinhood for VC Industry

Since the Robinhood app changed the stock market, making it easier for people to invest in stock, there was no doubt a similar format would soon appear in the venture industry. In the future, more and more people will have an opportunity to invest in the next Facebook[2,3].

In fact, Robinhood-like (robinhood.com) platforms already exist in VC. American company Cadre, for example, allows small investors to put money in institutional-level real estate. British platform Seedrs, in turn, lets individual investors finance more than 250 startups, including fintech giant Revolut. Startup investing is still largely available to only a narrow community of venture capitalists and angels. But this will change.

11.0 Investing in Individuals - Not Companies

Not all businesses can survive a crisis. Their founders, however, always move on. In fact, they get stronger, learn from mistakes and then launching more successful startups. That's why investing in individuals will definitely be a trend in the post-2024 future. Here's a vivid example of this trend: The Liberman brothers, serial entrepreneurs Daniil and David, have already launched a platform called Humanism. It allows people to invest in individuals, receiving in return a portion of their profits.

According to them, only 5% of the companies ever created have become unicorns. However, the percentage of founders who have crossed this 1-billion mark with their firm is more significant. It's 11%.

In 2021, along with Slow Ventures and a16z crypto fund partner Sriram Krishnan, the Liberman brothers invested $1.7 million in YouTube blogger Marina Mogilko. In return, she will be paying them 5% of all her future profits for 30 years. There's a high chance that more VCs will follow suit.

11.1 The Future of VC

The future of venture capital (VC) is expected to be disruptive, dynamic and innovative, with some trends to watch for[4]:

a. Data-driven decisions: More VCs use data analytics tools to source startups and make decisions. This can lead to a fairer and more objective industry.
b. Strong brand and reputation: As the VC landscape becomes more competitive, the importance of a strong brand and reputation is increasing. The MOGI industry generally lacks both a branding culture and a board governance structure.
c. Pre-emptive investment strategies: VCs are increasingly using pre-emptive investment strategies; the MOGI industry has to catch up.

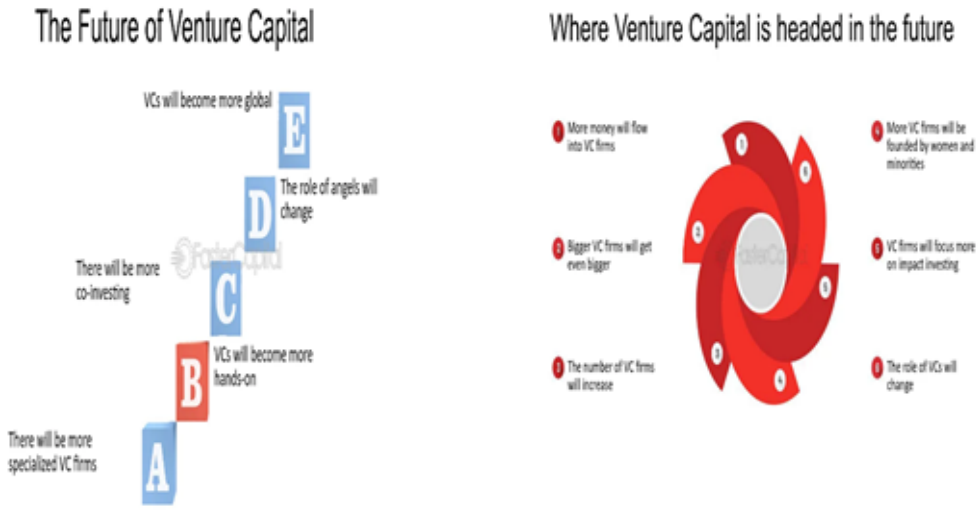


Figure 6. The future of Venture Capital.

d. Increased focus on sustainability and ESG: VCs increasingly focus on sustainability and ESG. This is more about responsible behavior.
e. Geographic diversification: VCs are increasingly diversifying their investments geographically, particularly in the countries that adopt global compliance in business making.
f. Growing importance of diversity and inclusion: VCs increasingly recognize the importance of diversity and inclusion.
g. Expansion of Decentralized Finance (DeFi): VCs are increasingly expanding into Decentralized Finance (DeFi).
h. VC is a riskier form of financing than traditional loans, but it can also reduce the risk for new business development and entrepreneurs. Venture capitalists typically provide long-term support to their portfolio companies, including additional funding, guidance, and access to a network of resources and talent.

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(Special note: All the references of the part-1 of this continuing article are also included in the part-2)